

October 30, 2007

Via E-Mail

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Advanced Notice of Proposed Rule (ANPR) for
Parts 703 and 704

Dear Ms. Rupp:

On behalf of Honda Federal Credit Union, I am responding to the National Credit Union Administration's (NCUA) request for comment regarding permissible foreign currency investments. Honda Federal Credit Union greatly appreciates NCUA's willingness to consider expanded investment authorities with the hopes of allowing credit unions to offer foreign currency denominated products and services to its members. For nearly twenty years, we have received requests from Employees of Honda Companies throughout the world and especially from Canada, for Honda Federal Credit Union to allow them to utilize our services. Adoption of 745.7 (Shares accepted in a foreign currency), and 741.11 (Foreign branching), were welcomed first steps. However, we need the tools necessary to mitigate the risks inherent in serving members who live and work in foreign countries.

While the Board is not inclined to consider lending in foreign denominated currencies in this ANPR, we would strongly encourage the Board to do so. It is our view that for a credit union to offer products or services in a safe and sound manner that are foreign currency denominated, any authorities granted to invest in foreign currency must be complimented with the ability to lend in foreign currency. The reasoning behind the need for enhanced investment authorities is to enable a credit union to effectively hedge against the risk of currency fluctuation. The most natural hedge against such risk is the ability to match the book of business. In other words, a credit union with an equal amount of shares and loans in a given currency is naturally hedged against currency fluctuation risks. We are of the opinion that this natural hedge clearly provides the most effective first line of defense against currency fluctuation risks in these types of situations. While it is unlikely or even undesirable to run a perfectly matched book, there are many effective tools to manage the risks in the unmatched portions.

Much of what the Board is considering in this ANPR could be guided by FDIC-FRB Regulations, Part 211—International Banking Operations (Regulation K).

The following are comments specifically requested by the ANPR:

- U.S. Domiciled Issuers: We do not believe the Board should impose restrictions on credit unions that are greater than those imposed on the banking community. Section 211.4 of FDIC-FRB Regulation K clearly authorizes investment in foreign institutions without the limitations suggested in the ANPR. If, for example, a credit union were to offer its members checking accounts in Canada, it might be necessary to maintain settlement funds with a Canadian financial institution such as one or more of the Canadian Corporate Credit Unions. Restricting investment in U.S. Domiciled Issuers would unnecessarily restrict a U.S. credit union in its ability to serve its members.
- Exchange Rate, Credit, and Other Risks: A credit union engaged in foreign banking activities will almost certainly not run a ‘matched book’ whereby the assets and liabilities are perfectly matched to one another. The risks will vary greatly from country to country and should be addressed by the Board on a case-by-case basis using Regulation K as a guide. The Board should also find it useful to use as guidelines the Expanded Authorities given to Corporates such as WesCorp. Furthermore, for a credit union to contract with a Corporate such as WesCorp to provide consulting services should, for example, serve as a good tool for NCUA to assure control of the risks noted. Rather than NCUA having to expend additional resources to examine credit unions engaged in these activities, NCUA would have only a few sources to examine; Corporates.

Honda Federal Credit Union appreciates the opportunity to comment on this important subject. We readily recognize there are a limited number of credit unions who will take advantage of the ability to offer foreign currency denominated products and services to their members however, we are convinced that the authorities contemplated in the ANPR will have a profoundly positive affect and will enable many credit unions to better serve the financial needs of their members.

Sincerely,

James E. Updike
CEO